UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

FILED
MAY 11 1994
Clerk, U.S. District Court
Central District of California
By /s/ Deputy

THIS CONSTITUTES NOTICE OF ENTRY
AS REQUIRED BY FRCP, RULE 77(d).

SEBASTIAN INTERNATIONAL INC.
Plaintiff,

v.

LONGS DRUG STORES CORP.
Defendant.

No. CV 93-2891 WDK

ORDER RE PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

I. INTRODUCTION

Before the Court is plaintiff Sebastian International Inc.'s ("Sebastian") Motion for Preliminary Injunction against Defendant Longs Drug Stores Corporation ("Longs"). The underlying lawsuit involves Sebastian's claims of unfair competition and trademark infringement arising from Longs' sale of genuine Sebastian products bearing their original marks. After oral argument and considerable further analysis, this Court reverses its tentative ruling and GRANTS Sebastian's motion for preliminary injunction.

II. FACTUAL BACKGROUND

Sebastian manufactures and distributes hair care products, including shampoos, conditioners, permanents, and colors. It sells its products only to professional salons and distributors that agree to sell only to professional salons. (Motion p. 1)

In the past, "diverters" have sold Sebastian products to unauthorized retailers including drug stores and other non-salon retail outlets. Some of these unauthorized resellers presumably sell the products in higher volume and at lower prices than the authorized salons. In order to combat such diversion, in 1992 Sebastian formed "The Sebastian Collective Membership Program" ("Collective"). Sebastian authorizes only members of the Collective to sell its products and limits membership to professional salons and distributors that agree to resell only to members or member salons' clientele. Sebastian conducts product seminars and educational classes for and distributes product training and educational materials to members of its collective. (Motion p. 1)

In April 1992, Sebastian filed to register the "Sebastian Collective Salon Member" as a collective membership and service mark. These marks are displayed on Sebastian's products. (Motion p. 1). The collective membership mark has been registered, and the service mark has been accepted for allowance by the Trademark Office.

Defendant Longs operates a chain of general merchandise and drug stores. It is neither a salon, an authorized distributor, nor a member of the Collective, nor does it employ licensed cosmetologists. Since at least 1987, Longs has sold unadulterated Sebastian products bearing their original marks. There is some evidence that Longs displays Sebastian products in a disheveled manner and sells defective products. One Sebastian

representative visited a Longs location and observed that many of the products had fallen down on the shelf and observed that one of the hair spray bottles was missing a nozzle. (Driscoll Decl. Exh. 2, 9)

Significantly, Sebastian conducted a consumer survey of respondents who had recently shopped in drug stores for hair care products. After being shown a placard depicting the collective mark, respondents were asked if they believed the store displaying the sign would need authorization to do so. Fifty six percent answered in the affirmative. (Cogan Exh. 2, p. 10) Then, after being shown a product and specifically directed to the collective mark, respondents were asked if they would believe the store would have to get authorization or permission to carry it. Thirty eight percent answered in the affirmative. (Cogan Exh. 2, p. 11) When then asked if they believed the store is affiliated with or associated with the Sebastian Collective program, 14 percent answered in the affirmative. (Cogan Exh. 2, p. 11-12).

Sebastian moves to enjoin Longs from selling Sebastian products bearing the collective marks. Sebastian argues that (1) it is likely to succeed on the merits because (a) its mark is a valid collective mark, (b) Longs' sale of these goods creates misrepresentations of affiliation and is likely to cause confusion, as evidenced by the consumer survey results, and (c) the first sale doctrine does not apply; (2) Longs' sales create irreparable harm to Sebastian's reputation; and (3) the balance of hardship weighs in Sebastian's favor.

III. DISCUSSION

A. *The Preliminary Injunction Standard*

A plaintiff seeking a preliminary injunction must show (1) the probable success on the merits and the possibility of irreparable injury or (2) serious questions

on the merits and a balance of hardship tipping sharply in its favor. *Miss World (UK), Ltd. v. Mrs. America Pageants, Inc.*, 856 F.2d 1445, 1448 (9th Cir. 1988). These are not two distinct tests but "the opposite ends of a single continuum in which the required showing of harm varies inversely with the required showing of meritoriousness." *Id.*

B. *Likelihood of Success on the Merits of Unfair Competition and Trademark Infringement Claims*

1. *Validity of the Collective Mark*

Longs argues that Sebastian's marks are invalid as collective marks because (1) collective marks must be owned by a collective entity not a corporation, (2) marks used by a collective on its own goods are not collective marks, (3) Sebastian's collective service mark does not cover members' provision of consultation services at issue here.

In this Court's view, Longs' arguments are unavailing. First, it appears that a collective mark need not be owned solely by the collective; rather, a corporation can own a collective mark. The Lanham Act defines a collective mark as a trademark used by members of a collective. 15 U.S.C. § 1127. In addition, § 1054 provides for the registration of collective marks "in the same manner . . . as are trademarks, by persons . . . exercising control over the use of the marks . . . except when used so as to represent falsely that the owner or a user thereof makes or sells the goods or performs the services" 15 U.S.C. § 1054. Thus, it appears that the Lanham Act directly addresses who may use but not who may own a collective mark.

Furthermore, the Trademark Manual of Examining Procedure ("TMEP"), a manual used by the examining board to determine whether a mark is valid, states that a

collective membership mark can be owned by "someone other than the collective organization whose members use the mark, and the owner itself might not be a collective organization. An example is a business corporation which forms a club for persons meeting certain qualifications and which, in forming the club, arranges to retain control of the group and of the mark used by the members of the group. The corporation which has retained control over the use of the mark is the owner of the mark, and is entitled to register the mark." TMEP § 1304.05. (citing *In re Stencel Aero Engineering Corp.*, 170 U.S.P.Q. 292 (TTAB 1971) (Aircraft ejection manufacturer can own a collective membership mark that it created for its club of successful users because the statutory definition requires only that mark be *used* by members; there is no limitation that only a collective can *own* mark)).

Moreover, the U.S. Trademark Office granted Sebastian as a corporation both Registrations and Notices of Allowances for the collective membership and service marks, respectively. (Kuchinski Decl. ¶ 4, 5). Registration is prima facie evidence of the validity of a mark. 15 U.S.C. § 1115(a).[1]

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[1] Longs argues that Sebastian cannot own a collective mark and cites *F.R. LePage Bakery v. Roush Bakery Products Co.*, 851 F.2d 351, 353 (Fed. Cir. 1988), *withdrawn, vacated and remanded*, 863 F.2d 43 (Fed. Cir. 1988), *vacated and modified*, 13 USPQ2d 1045 (TTAB 1989) in that regard. In that case, the Federal Circuit held that where a corporation is making and selling its wares under a trademark, it is not entitled to own a collective mark registration. *Accord* TMEP § 1302 ("a collective mark must be *owned by* a collective entity even though the mark is *used by* the members of the collective."); § 1303.01 ("a collective mark must be owned by a collective entity.")

In this Court's view, *Le Page* is distinguishable. *Le Page* involved the transfer of a collective mark to one of the members of the collective. Here, the Collective did not transfer ownership of the

(continued)

Second, as discussed in this Court's earlier order, dual use of a mark is permitted: a collective mark can be used both as a trademark or service mark by the collective as well as a collective service mark or membership mark by members of the collective.[2] McCarthy at § 19.34 [1] [b], TMEP § 1303.01. The key inquiry in determining whether a mark is being used as a collective mark or a traditional mark is who is using it. Here, the members of the collective "use" the mark by displaying and selling products that bear the mark identifying the seller both as a member of the collective and, correspondingly, as a salon professional who has received training and education in the use of Sebastian products. The fact that Sebastian itself applies the marks to the products and arguably also "uses" the marks does not

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(fn. continued)
mark to one of the salon members. Rather, as in *In re Stencel*, Sebastian as a corporate entity created the collective and owns the mark. Sebastian is not a member of the Collective. Moreover, this Court can think of no logical reason (nor, apparently, did the U.S. Trademark Office in registering the collective marks) why corporate niceties should dictate the validity of a collective mark. Notably, in addressing the validity of collective marks, the Lanham Act and relevant case law seem to focus on how a mark is used rather than who owns it.

[2] Previously, some courts applied the anti-use-by-owner rule to collective marks. According to that rule, if the owner of a collective mark, rather than the members, used the mark to identify its own goods or services the mark was not a "collective" mark, but a traditional trademark or service mark. McCarthy at § 19.34 [1] [b]. *See, e.g., Aloe Creme Laboratories, Inc. v. American Soc. for Aesthetic Plastic Surgery, Inc.*, 192 U.S.P.Q. 170, 173 (TTAB 1976).

Significantly, however, in 1988, the Trademark Law Revision Act made clear that the anti-use-by-owner rule does not apply to collective marks; consequently, a collective mark owner can make dual use out of the marks. A collective mark can be used in such a way as to be both a collective mark as well as a traditional trademark or service mark. McCarthy at § 19.34 [1] [b], [2], TMEP § 1303.01.

transmogrify the collective mark into a traditional trademark or service mark.

Moreover, although perhaps collective service marks and membership marks typically appear on placards and the like, the case law indicates that they can also appear on products themselves. *See Boise Cascade Corp. v. Mississippi Pine Mfrs. Assn.*, 164 U.S.P.Q. 364, 367 (TTAB 1969) and *Saks & Co. v. Snack Food Ass'n*, 12 U.S.P.Q.2d 1833, 1836 (TTAB 1989). Thus, it appears that the location of the mark does not determine its characterization as a collective mark; rather, the message conveyed to consumers by the mark is dispositive.

Third, Sebastian's service mark covers the services in question here. The Mark covers the provision to hairdressers of "educational services" in the use of Sebastian products. (Kuchinsky Decl., Exh. 3). In this Court's view, implicitly, a hairdresser who has received training and education in the use of Sebastian products would in turn necessarily bestow the benefits of this training on his or her customers. Thus, the service mark indicates that the member is trained and educated and therefore, by implication, will be able to instruct the customer as to the proper use of Sebastian products.

Accordingly, Sebastian has established a likelihood of success on the merits with regard to the validity of its collective marks.

B. *Misrepresentation and Likelihood of Confusion*

A defendant is liable for unfair competition if it uses in commence a "misleading representation" that is "likely to cause confusion" or to deceive as to affiliation, connection, or association. Lanham Act, 15 U.S.C. § 1125(a). Similarly, a defendant is liable for trademark infringement, which is one type of unfair competition, if it uses a registered mark that is "likely to cause

confusion," or mistake, or deception. Lanham Act, 15 U.S.C. § 1114(1), *Shakey's Inc. v. Colvalt*, 704 F.2d 426, 431 (9th Cir. 1993).

The general rule is that the unauthorized sale of goods bearing their true trademarks does not, by itself, constitute infringement. *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587, 593 (5th Cir. 1993). This is predicated on the notion that neither misrepresentations of fact nor consumer confusion ordinarily exist when a genuine mark bearing a true mark is sold. *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir.), *cert. denied*, 484 U.S. 851 (1987). In particular, the first sale doctrine provides:

> "Trademark law generally does not apply to the sale of genuine goods bearing a true mark even though such sale is without the mark owner's consent. Once a trademark owner sells his product, the buyer ordinarily may resell the product under the original mark without incurring any trademark liability. The reason is that trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product, which confusion ordinarily does not exist when a genuine article bearing a true mark is sold." *Id.* (Citations omitted.)

However, when additional factors are present indicating the likelihood of confusion or deception, infringement will be found. For example, courts have found infringement where a reseller makes an affirmative misrepresentation, such as placing a plaintiff's trademark on an advertisement or on pamphlets, and there is a suggestion that the customer was confused or deceived into believing the seller is an "authorized" dealer or seller. 3A Callmann Unfair Competition Trademarks and Monopolies, § 21.13, fn. 6, p. 123-133 (citing *Trail*

Chevrolet, Inc. v. General Motors Corp., 381 F.2d 353 (5th Cir. 1967). *See also Bandag, Inc. v. Al Bolser's Tire Stores*, 750 F.2d 903 (Fed. Cir. 1984) and *Stormor, A Div. of Fuqua Industries v. Johnson*, 587 F.Supp. 275 (W.D. Mich. 1984).

In addition, courts have found infringement where a trademark owner dictates that sellers provide certain ancillary functions and where it is not obvious to the consumer that these functions have not been performed. For example, where quality control is critical and any defect or potential defect due to a reseller's failure to adhere to quality control standards is not readily observable, a trademarked product sold by an unauthorized seller is not considered a "genuine" product and therefore is likely to cause confusion or deception. *See, e.g., Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104 (4th Cir. 1991), *Adolph Coors Co. v. A. Genderson & Sons, Inc.*, 486 F.Supp. 131 (D. Colo. 1980).[3]

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[3] By contrast, where any purported shortcomings would be obvious to the customers, customers are not likely to be confused and, consequently, infringement will not be found. In *Matrix*, for example, Matrix argued that its hair care products were not genuine unless they were sold with accompanying consultative services. The Court rejected this argument and held that no customer shopping in the drugstore would be confused or deceived as to whether they were getting a cosmetologist's consultation. *Matrix*, 988 F.2d at 591. Nor, the Court held, would confusion exist as to sponsorship because the goods were manufactured and labelled by Matrix. *Id.* at 592. *See also H.L. Hayden Co. of N.Y., Inc. v. Siemens Medical Systems, Inc.*, 879 F.2d 1005 (2d Cir.1989) (Defendant's sale of plaintiff's dental equipment, sold through its catalog and without plaintiff's required installation, was nevertheless a "genuine" product, and customers would not likely be confused or deceived that the product did not include installation).

In short, the first sale doctrine is not to be applied by rote to resales of genuine products. Rather, its application is predicated on the absence of misrepresentations and likelihood of confusion. Thus, where evidence of those exist, courts refuse to apply the first sale doctrine and will find infringement even for the resale of genuine products bearing their true marks.

Significantly, however, although the primary purpose of the trademark law is to protect consumers from confusion and deception, this end must be accomplished consistent with free market objectives. *Intel Corp. v. Terabyte Intern., Inc.*, 6 F.3d 614, 615 (9th Cir. 1993).

Here, unlike *Matrix* and the other first sale doctrine cases, misrepresentations and likelihood of confusion are present. By selling products bearing the collective mark, Longs is arguably misrepresenting to consumers that it is affiliated with or authorized by Sebastian or the Collective. The survey results bear this out. In addition, apparently members of the Collective provide certain ancillary functions (namely, quality control, consultative services and charity contributions). The collective mark, more than a traditional trademark, indicates a closer connection to Sebastian and in turn could signal to customers the existence of these functions. Thus, Longs, by selling Sebastian products bearing the collective mark, is arguably misrepresenting that it provides these functions.

Consumer confusion is also likely. The survey results indicate that a substantial number of consumers mistakenly perceived that a drug store selling goods bearing the collective mark must be authorized by or affiliated with Sebastian or the Collective. Evidence of actual consumer confusion, though not required, certainly tends to establish the likelihood of confusion.

The fact that Sebastian, by virtue of its "mislabeling," is somehow responsible for any misrepresentations or confusion is not determinative. The trademark law is concerned primarily with protecting consumers from being confused. The trademark cases seem to look only to whether there is a likelihood of consumer confusion not to who is responsible for that confusion. For example, courts that apply the first sale doctrine and find no infringement base their holdings entirely on the fact that the resale of goods bearing true traditional trademarks does not create misrepresentations or likelihood of confusion. Notably, none of these courts mentions the fact that even had there been any misrepresentations or likelihood of confusion, no infringement would be found because the trademark owner was somehow responsible by virtue of its labeling the products. These courts focus solely on the absence of misrepresentations and likelihood of confusion.

In addition, other courts have refused to apply the first sale doctrine and instead have enjoined the resale of genuine goods even where the trademark owner has arguably 'mislabeled' the products. *See Clairol, Inc. v. Boston Discount Center of Berkeley*, 608 F.2d 1114 (6th Cir. 1979) (Manufacturer of hair coloring successfully sued retailers that sold professional use products to consumers for home use where professional products lacked warnings and instructions.) Thus, the trademark case law is entirely consistent with enjoining Longs resale.

Finally, finding infringement here is consistent with the free market principles. Refusing to apply the first sale doctrine and finding infringement here is entirely in line with antitrust law. Courts have held that a manufacturer may, consistent with federal antitrust laws, impose restraints on and refuse to deal with a retailer solely because the retailer's image is not consistent with the

product's prestige, image and quality. *Trans Sport, Inc. v. Starter Sportswear, Inc.*, 964 F.2d 186 (2d Cir. 1992). Thus, protecting one's image and ensuring that only appropriate retailers sell one's product are deemed to be valid business justifications in the antitrust arena.

Here, Sebastian has attempted to do just that: to create a certain cachet and high end image of its products. Accordingly, Sebastian only sells to salons that are members of the Collective and expressly refuses to sell to drug stores and other lower end retailers that it thinks will taint the image of its products. In this regard, Sebastian places its collective mark on its products in part to combat diversion to unauthorized retailers like drug stores. In this Court's view, enjoining Longs' resale is entirely consistent with the principles of antitrust law as evidenced by *Trans Sport.*

Accordingly, Sebastian has established that it is likely to succeed on the merits with regard to establishing a misrepresentation that is likely to cause consumer confusion.

C. *Irreparable Harm/Balance of Hardships*

Sebastian faces a real threat of irreparable harm and the balance of hardships tips sharply in its favor. As indicated in the survey, the collective mark arguably implies even more of a connection between the reseller and Sebastian than does a traditional trademark. Therefore, Sebastian's cachet is in even greater jeopardy. Longs is arguably perceived as a lesser, discount environment, particularly when contrasted to a tony salon setting.

In addition, there is evidence that Longs is selling defective products and exhibiting them in a disheveled manner. Moreover, as pointed out during oral argument, a number of survey respondents mistakenly believed that

a drug store selling products bearing the Sebastian collective mark is probably selling second-hand or damaged Sebastian products. This signals to consumers that Sebastian might have authorized the sale of inferior goods. In addition, at least one salon owner declared that he would consider terminating his membership in the Collective unless diversion to drug stores was stopped. Thus, Sebastian is in real jeopardy of losing members of the Collective, which, in turn, could threaten its ability to maintain the high end image of its products.[4]

By contrast, Longs faces a relatively minor harm. Longs will lose the lost profits on future sales of Sebastian products. However, Longs sells numerous other brands of hair care products. Thus, its very existence as a retailer is not in jeopardy. In addition, Longs' sells Sebastian only on a sporadic basis. Thus it does not have a reputation as a reliable source of Sebastian products to protect.

Accordingly, Sebastian faces the possibility of irreparable injury, and the balance of hardship tips sharply in its favor.

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[4] Longs argues that Sebastian delayed in bringing this action, which in turn negates Sebastian's contentions of irreparable injury. Longs' argument is without merit. Admittedly, Sebastian has been on notice of Longs' sales since 1987 and only now seeks injunctive relief. However, Sebastian's Collective was not founded until June 1992. Sebastian did not attempt to utilize the trademark avenue until after it registered its collective mark, placed the mark on its goods, and in April 14, 1993, first learned that the defendant was selling Sebastian product bearing the collective mark. Sebastian then filed suit on May 18, 1993. Sebastian did not, therefore, sleep on its rights.

IV. CONCLUSION

For the foregoing reasons, Sebastian's motion for Preliminary Injunction is GRANTED. This Court Orders that, pending a trial on the merits and determination in this action,

(1) defendant and defendant's officers, directors, employees, agents, servants, successors, and assigns, as well as those persons in active concert or participation with them who receive notice of the Order, be enjoined from infringing the collective marks of plaintiff, or from otherwise engaging in unfair competition with plaintiff, in any manner, including but not limited to:

(a) displaying, distributing and/or offering for sale to the public, and/or purchasing or otherwise acquiring for the purpose of displaying, distributing and/or offering for sale to the public, Sebastian hair care and beauty products that bear one or more of plaintiff's Collective Marks, namely, Sebastian Collective Salon Member and Sebastian Collective Salon Member & Design; and/or

(b) engaging in any conduct tending falsely to represent or likely to confuse, mislead or deceive purchasers, defendant's customers or member of the public into thinking that defendant is or is affiliated with plaintiff and/or the Collective, that defendant's services are offered by or are otherwise the same nature as those offered by plaintiff and/or the members of the Collective, and that defendant's offering of services, if any, has been sponsored, approved, or licensed by plaintiff or the Collective.

(2) Sebastian shall post a bond in the amount of $250,000 for the payment of such costs and damages as may be incurred or suffered if Longs is found to have bene wrongfully enjoined or restrained.

(3) This Order shall be stayed for 90 days. Unless the Court of Appeals orders otherwise, this injunction will take effect after 90 days from the date of this Order.

(4) During this 90-day stay, Longs may attempt to sell inventory it currently possesses of Sebastian hair care and beauty products that bear one or more of plaintiff's Collective Marks;

(5) Within 30 days of the last of these sales, Longs shall submit to the Court an accounting of any sales made and corresponding profits earned from these sales.

IT IS SO ORDERED.

March 11, 1994

/s/ William D. Keller
William D. Keller, Judge
United States District Court